

Multiple Agency Fiscal Note Summary

Bill Number: 2219 HB	Title: Affordable housing/tax ex.
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	(563,000)	(563,000)	(564,000)	(2,840,000)	(2,840,000)	(2,844,000)	(3,056,000)	(3,056,000)	(3,060,000)
Total \$	(563,000)	(563,000)	(564,000)	(2,840,000)	(2,840,000)	(2,844,000)	(3,056,000)	(3,056,000)	(3,060,000)

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(202,950)		(1,278,090)		(1,375,110)
Local Gov. Total		(202,950)		(1,278,090)		(1,375,110)

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	.0	0	0	7,200	.0	0	0	4,800	.0	0	0	4,800
Department of Revenue	.3	65,500	65,500	65,500	.0	0	0	0	.0	0	0	0
Total \$	0.3	65,500	65,500	72,700	0.0	0	0	4,800	0.0	0	0	4,800

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

Prepared by: Amy Hatfield, OFM

Phone:
(360) 280-7584

Date Published:
Final 1/26/2024

Individual State Agency Fiscal Note

Bill Number: 2219 HB	Title: Affordable housing/tax ex.	Agency: 014-Joint Legislative Audit and Review Committee
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
Account					
Performance Audits of Government Account-State 553-1	7,200	0	7,200	4,800	4,800
Total \$	7,200	0	7,200	4,800	4,800

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Rachele Harris	Phone: 360-786-7137	Date: 01/10/2024
Agency Preparation: Pete van Moorsel	Phone: 360-786-5185	Date: 01/15/2024
Agency Approval: Eric Thomas	Phone: 360 786-5182	Date: 01/15/2024
OFM Review: Gaius Horton	Phone: (360) 819-3112	Date: 01/16/2024

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

HB 2219 creates a new sales and use tax exemption for 1) charges for labor and services rendered by eligible nonprofit organizations in development of new or existing affordable housing and 2) sales of tangible personal property that is incorporated in the housing during that development.

The preference has an expiration date of January 1, 2035.

Tax Preference Performance Statement Details

The Legislature categorizes the tax preference as one intended to provide tax relief for nonprofits that develop and maintain affordable housing and to incentivize the construction of affordable housing per RCW 82.32.808(2)(a) and (e).

The Legislature's specific public policy objective is to reduce the financial burden of constructing new affordable housing and increase the supply of affordable housing throughout Washington.

The Legislature intends to extend the tax preference if JLARC's review finds that the construction of affordable housing by nonprofits has increased.

JLARC is directed to refer to any data collected by state, local, and federal governments to obtain data for the review.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

JLARC staff will work with the Department of Revenue and the Department of Commerce immediately after passage of the bill to ensure project contacts are established and any other necessary data for JLARC staff's future evaluation needs are identified and collected. Staff would also work with these agencies when conducting its review.

Given the January 1, 2035 expiration date, this fiscal note assumes the preference will be reviewed in 2032. The expenditure detail reflects work conducted to prepare for the future review of the preferences. Costs associated with the review are not included in this fiscal note.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2024 legislative session.

This audit will require an estimated 1 audit month.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related

administrative, support, and goods/services costs. JLARC’s anticipated 2023-25 costs are calculated at approximately \$23,900 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
553-1	Performance Audits of Government Account	State	7,200	0	7,200	4,800	4,800
Total \$			7,200	0	7,200	4,800	4,800

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years					
A-Salaries and Wages	4,700		4,700	3,200	3,200
B-Employee Benefits	1,500		1,500	1,000	1,000
C-Professional Service Contracts					
E-Goods and Other Services	900		900	600	600
G-Travel	100		100		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	7,200	0	7,200	4,800	4,800

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	131,064					
Support staff	110,856					
Total FTEs						0.0

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 2219 HB	Title: Affordable housing/tax ex.	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		(563,000)	(563,000)	(2,840,000)	(3,056,000)
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax		(1,000)	(1,000)	(4,000)	(4,000)
Total \$		(564,000)	(564,000)	(2,844,000)	(3,060,000)

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3	0.2	0.3		
GF-STATE-State 001-1	45,100	20,400	65,500		
Total \$	45,100	20,400	65,500		

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Rachele Harris	Phone: 60-786-7137	Date: 01/10/2024
Agency Preparation: Stephen Cleverdon	Phone: 60-534-1523	Date: 01/24/2024
Agency Approval: Marianne McIntosh	Phone: 60-534-1505	Date: 01/24/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/25/2024

Request # 2219-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

CURRENT LAW:

State and local retail sales and use taxes are charged on taxable sales. The state tax rate is 6.5%.

Non-profits must pay sales and use taxes on the costs of constructing and maintaining affordable housing for low-income families. The nature of sales and use tax on construction depends on whether the project is custom or speculative. The cost of contractor labor and physical inputs are subject to retail sales tax and use tax.

PROPOSED LAW:

This bill creates a retail sales tax exemption on labor and services rendered by an eligible nonprofit organization for constructing, repairing, decorating, or improving new or existing affordable housing. This is for services performed by the eligible nonprofit and provided for a buyer of their services.

This bill creates a retail sales and use tax exemption for sales of tangible personal property that becomes an ingredient or component of the buildings or other structures during the course of constructing, repairing, decorating, or improving affordable housing.

An eligible nonprofit is an organization exempt from federal income tax under Title 26 U.S.C. Sec. 501(c) of the Internal Revenue Code of 1986, as amended, as of the effective date of this section. The nonprofit must operate, own, or provide affordable housing.

Affordable housing means housing provided to low-income households at the time of initial occupancy. The defining income level to qualify as low-income differs when a county is rural and when a county is nonrural. For nonrural counties, a single person, family, or unrelated persons living together whose adjusted income is at or below 80% of the median family income adjusted for family size, for the county in which the property is located. For rural counties, a single person, family, or unrelated persons living together whose adjusted income is at or below 100% of the median family income adjusted for family size, for the county where the property is located.

This exemption expires on January 1, 2035.

EFFECTIVE DATE:

This act takes effect July 1, 2024.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- The median home price in Washington is over \$647,900.
- The median home price subject to this exemption is \$485,925.
- Approximately 130 homes constructed each year would qualify for this exemption.
- 50% of construction costs are supplies and subject to the sales and use tax exemption.
- Growth rate mirrors the median sales price of single-family homes growth rate reflected in the S&P Global Market Intelligence, November 2023 forecast.
- Local revenue estimates use the statewide average local sales and use tax rate of 2.95%.
- This legislation takes effect July 1, 2024, and impacts five months of collections in fiscal year 2025.

Request # 2219-1-1

- The Department of Revenue (department) receives the taxes from monthly taxpayers the month after the business collects the sales tax from the consumer. Most local tax distributions occur the month after the department receives sales and use taxes that businesses collect. This leads to a one-month delay in revenues for the state and a two-month delay in revenues for local jurisdictions.

DATA SOURCES:

- Office of Financial Management, Median home prices
- Office of Financial Management, April 1, 2023 Population of Cities, Towns and Counties
- Business Insider webpage - "Typical starter home cost by state"
- Department of Revenue, Excise tax return data
- S&P Global Market Intelligence, November 2023 forecast
- Habitat for Humanity webpage.

REVENUE ESTIMATES:

This bill decreases state revenues by an estimated \$564,000 in the five months of impacted collections in fiscal year 2025 and \$1.4 million in fiscal year 2026, the first full year of impacted collections. This bill also decreases local revenues by an estimated \$205,000 in the four months of impacted collections in fiscal year 2025 and \$634,000 in fiscal year 2026, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	(\$ 564)
FY 2026 -	(\$ 1,396)
FY 2027 -	(\$ 1,448)
FY 2028 -	(\$ 1,502)
FY 2029 -	(\$ 1,558)

Local Government, if applicable (cash basis, \$000):

FY 2024 -	\$ 0
FY 2025 -	(\$ 205)
FY 2026 -	(\$ 634)
FY 2027 -	(\$ 657)
FY 2028 -	(\$ 682)
FY 2029 -	(\$ 707)

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This bill affects 40 taxpayers.

FIRST YEAR COSTS:

The department will incur total costs of \$45,100 in fiscal year 2024. These costs include:

- Labor Costs – Time and effort equate to 0.29 FTE.
- Set up, program, and test computer system changes.
- Gathering requirements; implementation meetings; and documenting system changes.

- Create a Special Notice and update information on the department's website.

Object Costs - \$4,500.

- Computer system changes, including contract programming.

SECOND YEAR COSTS:

The department will incur total costs of \$20,400 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 0.21 FTE.

- Create a new excise tax advisory (ETA).

- Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.

- Examine accounts and make corrections as necessary.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.3	0.2	0.3		
A-Salaries and Wages	25,700	12,400	38,100		
B-Employee Benefits	8,400	4,100	12,500		
C-Professional Service Contracts	4,500		4,500		
E-Goods and Other Services	4,500	2,700	7,200		
J-Capital Outlays	2,000	1,200	3,200		
Total \$	\$45,100	\$20,400	\$65,500		

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	131,684		0.0	0.0		
EMS BAND 5	153,836		0.0	0.0		
EXCISE TAX EX 2	58,104		0.1	0.1		
IT B A-JOURNEY	91,968	0.1		0.1		
IT SYS ADM-JOURNEY	96,552	0.1		0.1		
MGMT ANALYST4	76,188		0.0	0.0		
TAX POLICY SP 2	78,120	0.1	0.0	0.0		
TAX POLICY SP 3	88,416	0.0	0.1	0.0		
TAX POLICY SP 4	95,184		0.0	0.0		
WMS BAND 2	98,456	0.0		0.0		
WMS BAND 3	111,992		0.0	0.0		
Total FTEs		0.3	0.2	0.3		

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

Request # 2219-1-1

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 2219 HB	Title: Affordable housing/tax ex.
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Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- Cities: sales and use tax revenue decrease
- Counties: sales and use tax revenue decrease
- Special Districts: sales and use tax revenue decrease
- Specific jurisdictions only:
- Variance occurs due to:

Part II: Estimates

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City		(59,911)	(59,911)	(377,292)	(405,932)
County		(76,350)	(76,350)	(480,818)	(517,317)
Special District		(66,689)	(66,689)	(419,980)	(451,861)
TOTAL \$		(202,950)	(202,950)	(1,278,090)	(1,375,110)
GRAND TOTAL \$					(2,856,150)

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 01/26/2024
Leg. Committee Contact: Rachele Harris	Phone: 360-786-7137	Date: 01/10/2024
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 01/26/2024
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 01/26/2024

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

This bill creates a new sales and use tax on charges made for labor and services rendered by any eligible nonprofit organization in respect to the constructing, repairing, decorating, or improving of new or existing affordable housing, or to sales of tangible personal property that becomes an ingredient or component of the buildings or other structures during the course of the constructing, repairing, decorating, or improving of affordable housing.

This bill takes effect July 1, 2024 and expires January 1, 2035.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This bill will not impact local government expenditures.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

According to the Dept. of Revenue, this bill decreases local government revenues by an estimated \$205,000 in the four months of impacted collections in fiscal year 2025 and \$634,000 in fiscal year 2026, the first full year of impacted collections.

COUNTIES

FY 2025	\$(76,350)
FY 2026	\$(236,126)
FY 2027	\$(244,692)
FY 2028	\$(254,003)
FY 2029	\$(263,314)

CITIES

FY 2025	\$(59,911)
FY 2026	\$(185,285)
FY 2027	\$(192,007)
FY 2028	\$(199,313)
FY 2029	\$(206,619)

SPECIAL DISTRICTS

FY 2025	\$(66,689)
FY 2026	\$(206,249)
FY 2027	\$(213,731)
FY 2028	\$(221,864)
FY 2029	\$(229,997)

METHODOLOGY

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2022. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. The result is a distribution of 37.62 percent to counties, 29.52 percent to cities, and 32.86 percent to special districts. The one percent DOR administrative fee has also been deducted.

SOURCES

Department of Revenue Fiscal Note

Department of Revenue Local Tax Distributions